

APPENDIX D

INTERNAL REVIEW SURVEY REQUIREMENTS AND PROCEDURES

1. General. A survey should be performed as the initial phase for all reviews. The extent of survey effort will vary based upon circumstances and the type of review. A survey for a troubleshooting or quick-reaction review may be limited to efforts needed (i) to obtain a working knowledge of the organization, program or activity to be reviewed and (ii) to develop a review guide showing how the objective(s) will be accomplished. A complete survey, as described below, will normally be performed for internal audits.

2. Survey Requirements. During the survey the auditor should become familiar with the organization and functions of the activity under review; gain-sufficient knowledge to identify important issues and potential problem areas; determine if further audit work is needed; and if so, identify the primary audit objectives and design an audit approach to effectively accomplish the objectives. Suggested survey techniques and procedures are shown on Pages D-3 and D-4. The survey work should be documented in accordance with prescribed procedures. As soon as there is sufficient evidence to indicate a problem (condition) and some indication of its cause, survey work should stop in that area. Each problem should be documented on a lead sheet (Page D-5 and ranked in priority sequence). A decision will then be made on whether to proceed with the review and if so, which areas to cover during the review. The lead sheets should be the basis for the audit objectives and development of the review guide. If the survey discloses that further review work is not warranted, the auditor will report the survey results to the commander by means of a letter report prepared in accordance with the format at Appendix G.

3. Internal Management Controls. The auditor should normally review and evaluate applicable internal management control systems during every survey and/or audit. Additional guidance is furnished as follows:

a. When identifying pertinent regulations the auditor should also determine whether applicable internal management control checklist(s) for the functional area under review have been published in the DA 11 series of circulars. If so, the auditor should verify whether management personnel have

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completed the checklist assessing internal management controls within their area of responsibility. The auditor should also use pertinent checklists in evaluating internal management controls during the audit.

b. The survey should include an identification of the transaction cycles and possible threats for the program or function under review and the necessary internal management controls within each cycle. The auditor should then determine if the controls are in place and test and evaluate their effectiveness. These latter steps are necessary to determine the extent to which the auditor can rely on the internal management control system during the planning and performance of the audit.

c. The Government Auditing Standards published by the Comptroller General (Yellow Book) require that the auditor obtain a complete understanding of the internal management control structure for financial audits or document why a more limited review was performed. The field work and reporting standards start on pages 4-10 and 5-4 of the "Yellow Book". The Government Auditing Standards for performance audits require that an assessment be made of applicable internal management controls when necessary to satisfy the audit objectives. The field work and reporting standards start on pages 6-21 and 7-7 of the "Yellow Book".

INTERNAL REVIEW
Survey Techniques

- Review activity's mission and functions statement and applicable policies, directives and standard operating procedures.
- Review previous management studies, internal and external audit reports, and other reports applicable to the area being surveyed.
 - . Review report coverage.
 - . If applicable, obtain copies of the program and internal control related working papers.
- Obtain organization charts and position descriptions. Determine working relationships among functional elements and their interfacing organizations.
- Contact organization officials to accomplish following:
 - . Obtain briefing on mission and functions.
 - . Obtain data on size and scope of activity.
 - . Develop understanding of organizational operations and procedures, including automated systems.
 - . Determine if spans of supervisory control permit adequate direction of work.
 - . Solicit problem areas or audit suggestions from management.
 - . Compare procedures described to written standard operating procedures for consistency.
- Obtain index or listing of activity's management reports to identify what information is available and how managers monitor their operations.
- Perform on-site observation of operating methods and procedures.

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- Determine whether internal control checklists have been published and completed by management. If so, evaluate adequacy of management testing of internal controls.
- If checklists are not available, identify transaction cycles and necessary internal controls for each cycle.
- Verify that officer evaluation reports and civilian performance standards of appropriate officials reflect internal control responsibilities, including resolution and implementation of audit findings.
- Prepare narrative description and/or flowchart of procedures followed and document(s) processed. Identify and list possible threats including the in-place controls for such threats.
- Perform limited test of transactions to evaluate compliance with prescribed policies and procedures and effectiveness of existing internal controls.
- When computer-processed data will be an important part of the audit and the data's reliability is crucial to accomplishing the audit objectives, the auditor should test the data for reliability.
- Prepare lead sheets for each identified potential problem area.
- Determine the universe, scope and materiality of each potential audit area.
- Summarize survey results and "go, no-go" decision. The basis for a "no-go" decision should be clearly explained.
- If decision is to continue, document need to proceed into the verification phase and establish specific review objectives.

AUDIT LEAD WORKSHEET

Name of Audit _____

Functional Area _____

Potential Finding (Condition): _____

Possible Cause: _____

Possible Effect: _____

Probable Recommendation: _____

Regulatory Guidance (Criteria:) _____

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Date: _____ Preparer: _____

Reviewer's Guidance: _____

Date: _____ Reviewer: _____